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PROMOTING DECENTRALIZED AND FLEXIBLE BUDGETS IN ENGLAND: LESSONS FROM THE PAST AND FUTURE PROSPECTS

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ABSTRACT

The UK has traditionally been viewed as a classic example of a unitary state in which central institutions dominate decision making. The recent Labour Government sought to counter this convention through devolution to Scotland, Wales, Northern Ireland and London and administrative decentralization to the English regions. This article examines New Labour's efforts to promote sub-national policy discretion and fiscal autonomy via the Regional Funding Allocations (RFA) process. Findings are subsequently drawn upon to offer insights into the difficulties the Coalition government is likely to face in its endeavor to decentralize functions and budgets to local authorities and communities. The paper addresses two central questions (i) Can New Labour's attempt to promote decentralized and flexible budgets in England be viewed as evidence of a transition to a more fluid, multi-level form of governance? (ii) What lessons can be harnessed from the RFA experience in taking forward the Coalition government's plans to promote fiscal discretion at the sub-national tier? It concludes that there are deep-rooted barriers in Whitehall that may limit the freedoms and flexibilities pledged to local government and could undermine efforts to decentralize.

KEY WORDS: Budgets, decentralization, localism, Westminster Model, Hollowing Out, Regional Funding Allocations

INTRODUCTION

Devolution in Scotland, Wales and Northern Ireland and an elected Mayor in London have replaced traditional, more unitary forms of territorial politics in the UK (Jeffery and Wincott, 2010). However, New Labour's approach in the English regions, outside London, centered on a more limited form of administrative decentralization based within policy and fiscal frameworks defined by the Centre (Hazell, 2006). Under administrative decentralization the responsibilities of the regional tier were enhanced through promoting local flexibilities in the context of national performance incentives (HM Treasury and Cabinet Office, 2004), acknowledging the important role of the regions in achieving policy integration and strategic planning (HM Government, 2009; Counsell *et al.*, 2007; Haughton *et al.*, 2010) and working with local government, Multi-Area Agreements (MAAs) and City-regions to promote economic development and regeneration (HM Treasury *et al.*, 2007; Fenwick *et al.*, 2009; Harrison, 2010). However, unlike the devolved territories, there was no 'location dimension to the allocation of public expenditure to the regions of England' (Heald and Short, 2002, p. 743) and regional objectives were shaped and restrained by priorities and funding streams dictated by separate Whitehall departments (Parker *et al.*, 2010).

Introduced in 2005, Regional Funding Allocations (RFAs) were intended to 'enhance regional input into government policy development, showing how such priorities

relate to each other to form a coherent, credible and strategic vision for improving the economic performance of regions; and how these priorities are aligned to resources' (HM Treasury *et al.*, 2005, p. 3). For the first time major funding streams for economic development, housing, transport, and, latterly, skills were examined jointly by key partners to promote a more cohesive approach to the long-term management of resources. The significance of RFAs lay in the opportunity it offered to challenge the silo or 'blow pipe' funding (Heald and Short, 2002) emanating from Whitehall and to coordinate investment at the sub-national level. RFAs also reflected a wider 'global trend' towards devolution (Rodriguez-Pose and Gill, 2004) and the assumption that effective regional governance could play an important role in promoting economic productivity and growth (Goodwin *et al.*, 2005). New Labour rhetoric espoused the need for a more decentralized, coordinated and collaborative approach to sub-national policy making and delivery (Jordan, 2007). Nonetheless, given the UK's tradition of centralized control over policy-making and resources, whether Whitehall would become more attuned to incorporating regional priorities into national spending programmes was uncertain (Marsh, 2008).

More recently, the Coalition Government has set out plans to dismantle the regional administrative tier in England, including the abolition of Local Authority Leaders Boards (LALBs) and Regional Development Agencies (RDAs), which have had responsibility for regional spatial and economic planning and removing the Government's Regional Offices (GOs). Alongside the transfer of the spatial planning function to district councils, Local Enterprise Partnerships (LEPs), consisting of groupings of local authorities and business partners are being established, based upon 'natural' economic areas to lead 'improved coordination of public and private investment in transport, housing, skills, regeneration and other areas of economic development' (HM Treasury, 2010, p.31). Recent announcements by ministers have extolled the virtues of local discretion over objectives, functions and budgets (Clark, 2010; Pickles, 2010). Particular stress has been placed on rolling out the 'Total Place' initiative that seeks to examine all public spending in individual localities as a way of avoiding overlap and duplication between organizations' budgets and delivering a step change in both service improvement and efficiency at the local level (HM Treasury and DCLG, 2010). Likewise, the Government has announced a £1.4bn Regional Growth Fund which aims to consolidate fragmented funding streams into one pot to support local economic growth (HM Government, 2010). These reforms will challenge Whitehall's centralist disposition but the prospect of departments yielding control over resources to local councils cannot be assumed.

At first sight, therefore, we appear to be presented with two contrasting accounts of the relationship between Whitehall and the sub-national tier. On the one hand, devolution and decentralization in the UK epitomizes the transfer from the Westminster Model to a 'differentiated polity' (Rhodes, 1997), in which the traditional functions of the state are being 'hollowed out' (Jessop, 2004). The retreat of the nation state is viewed as a consequence of pressures from *above* via globalization, from *below* amidst demands for devolution, and from *within* due to the revival of free market ideologies and the perceived incapacity of the state to manage the economy and maintain control over policy outcomes (Labao *et al.*, 2009). By contrast, others contend that 'the evidence for decentralization of any significance is insubstantial' (Cox, 2009, p. 107). Indeed, the growing range of powers held in Whitehall have led many to question the extent to which New Labour's regional

experiment resulted in ‘state rescaling’ of any significance (Holliday, 2000). Cairney (2009, p. 358) argues that ‘the Centre is still the most powerful actor and the loss of control described by the hollowing-out thesis is exaggerated’. Likewise, the Coalition’s pledge to devolve power to localities will require a fundamental rethink of Whitehall standard practice and many believe that Whitehall remains ill equipped to deliver (Jones and Stewart, 2010).

On closer examination, however, it becomes clear that the pattern of responses to decentralization may be more diverse and complex than that posited by either perspective. A further layer of complexity is derived from the fact that departments have varying levels of commitment to decentralization. Ayres and Stafford (2009, p. 618) note that ‘different departmental positions reflect a desire by ministers to orchestrate a regional architecture that enables them to meet their own individual objectives’. Likewise, Entwistle (2010, p. 613) calls for a more nuanced theory of intergovernmental relationships than can be provided by the centralization-decentralization dichotomy stating that ‘differences between central departments mean that different services, within the same local authority, are likely to experience very different relationships with central government’. Rather than being characterized by either a unitary or devolved state it may be more appropriate to refer to a ‘hybrid state’ that reflects different ‘patterns of central-local relations, public administration and fiscal relations’ (Loughlin, 2009, p. 51).

Drawing on a recent comprehensive examination of the Regional Funding Allocations process, the aim of this paper is to examine the complexities of evolving inter-governmental relations in England from a Whitehall perspective. Based on an analysis of official documents and semi-structured interviews conducted with senior Whitehall officials involved in the RFA process between July 2007 and August 2010, the paper offers a valuable insight into the workings of Whitehall departments in their attempts to pursue a more decentralized approach to policy making. Whitehall’s differentiated response to decentralization is often cited as an impediment to generating a more cohesive and sustainable approach to territorial politics in England (Mrinska, 2008). This paper examines different departmental approaches to managing RFAs and the subsequent impacts on sub-national policy discretion. Senior Whitehall officials were interviewed in HM Treasury and the Departments for Business, Innovation and Skills (DBIS), Communities and Local Government (DCLG), Transport (DfT), Work and Pensions (DWP), Innovation, Universities and Skills (DIUS) and Government Office Network. Respondents were asked about the driving forces behind RFAs, departmental arrangements for dealing with RFA submissions, perceptions on regional governance capacity and the impact of the economic downturn on the RFA process. Twenty-three interviews were conducted, lasting approximately one hour. Each was conducted under Chatham House Rules, digitally recorded, transcribed and manually coded to illicit findings.

The paper seeks to address two central questions. Can New Labour’s attempt to promote decentralized and flexible budgets in England be viewed as evidence of a transition to a more fluid, multi-level form of governance? What lessons can be harnessed from the RFA experience in taking forward the Coalition government’s plans to promote fiscal discretion at the sub-national tier? The paper is divided into four sections. Following this introduction, section two examines New Labour’s motives behind introducing RFAs and departmental aspirations for the scheme.

Section three discusses the opportunities and limitations of RFAs within the context of six key policy objectives, namely (i) consistency with national priorities (ii) realistic prioritization (iii) evidence-based priorities (iv) consensus-based priorities (v) promoting policy coordination and (vi) enhancing the long-term management of resources. We conclude by reflecting on whether the RFA scheme challenged intergovernmental relations characterized by the Westminster Model and offer a number of lessons that might inform future attempts to enhance local control over budgets.

GOVERNMENT MOTIVATIONS BEHIND REGIONAL FUNDING ALLOCATIONS

Policy context

Under the RFA scheme, *indicative budget allocations* for economic development, housing and transport policy were identified for the 2005-08 spending review period. In addition, the Government spelt out *longer term planning assumptions* of the amount of funding that was likely to be made available in these core policy areas over the following ten years. Regional partners, including representatives of the GOs, RDAs and unelected Regional Assemblies were invited to jointly prepare advice to ministers on how these allocations should be spent. They were also asked to consider the scope for *vireing* (or transferring) allocations between budget headings, where this would assist integration. An option to *defer* funding was also granted so that money could be combined with future planned investment to deliver large scale projects that benefited the region.

The rationale underpinning RFAs reflected many of New Labour's aspirations for regional governance. The *Devolving Decision Making Review*, for example, sought to identify how 'best to achieve decentralized delivery and responsive local and regional services in a way that is consistent with equity and efficiency, against a clear framework of national standards' (HM Treasury and Cabinet Office, 2004, p. 1). The RFA scheme was initiated and driven forward by Treasury officials who believed that allocating resources over the long-term would contribute to boosting regional economic productivity and help meet the Public Service Agreement (PSA) target to reduce regional economic disparities. The Treasury's view was not, however, shared by all in Whitehall. As the main sponsors of RDAs, the then Department for Business, Enterprise and Regulatory Reform (DBERR) wanted greater clarity over RDA funding and RFAs were seen to offer this. Likewise, the Department for Transport (DfT) favored RFAs as it saw itself as the likely beneficiary of virement. 'There were [however] split views within the Department for Communities and Local Government (DCLG) and a lack of consensus about whether housing should be part of the process' (DCLG official). Some DCLG officials acknowledged the potential synergies with other areas, while others viewed RFAs as a 'distraction' from core departmental targets, such as the provision of affordable housing. Similarly, while skills funding had been a Treasury 'front runner' for inclusion in the first round of RFAs this proposal was quietly dropped due to reservations in the Department for Education and Skills (DfES) about the possibility of virement funds. A DCLG official described the process of selecting policy areas as almost whimsical, 'The inclusion of policy areas was rather dictated by those departments who were willing to play ball, rather than a considered strategy. Don't underestimate the influence of happenstance'.

In 2007 a second round of RFAs was announced as part of the Treasury's *Sub-national Review of Economic Development and Regeneration* (SNR) with skills and employment policy mooted for inclusion (HM Treasury *et al.*, 2007). But, despite Treasury efforts, both the Departments for Innovation, Universities and Skills (DIUS) and Work and Pensions (DWP) resisted the move, fearing virement and loss of control to regional bodies (Ayres and Stafford, 2009). The Treasury was forced to make an embarrassing U-turn and an awkward compromise was struck. DWP refused any involvement and while regional actors would prepare advice on skills policy as part of the RFA exercise, skills would 'not be included in the RFA funding envelope' (HM Treasury *et al.*, 2008, p. 15). This clause removed any prospect of transferring skills expenditure to other policy areas.

Programmes and budgets

In the first round of RFAs the following programmes were included:

- *Transport* - capital funding projected for major schemes in Local Transport Plans and major Highways Agency schemes, other than on those roads of the greatest strategic national and international importance,
- *Housing* - Regional Housing Fund and Housing Market Renewal Pathfinder funding, and
- *Economic development* - Regional Development Agency Single Budget (HM Treasury *et al.*, 2005, p. 5).

The regional distribution of funding was allocated using established formulae in the cases of economic development and housing and a newly developed formula for transport (In House Policy Consultancy, 2005). Funding allocations for 2005-06 to 2007-08 are set out in Table 1.

INSERT TABLE 1

In the second RFA round the following funding streams were added:

- *Transport* - Local Authority block allocations for integrated transport & maintenance (from 2011-12)
- *Housing* - English Partnerships Fund, Community Infrastructure Fund, Thames Gateway Funding (only South East and Eastern regions),
- *Economic development* - European Regional Development Funds (HM Treasury *et al.*, 2008, p. 15).

Funding allocations for 2008-09 to 2010-11 are set out in Table 2. Skills funding for Regional Offices of the Learning and Skills Councils (LSC) was also indicated (£9.4bn over three years), albeit outside the formal RFA funding envelope, and regions were asked to provide advice,

'to help inform the work that the Regional Skills Partnership and the Learning and Skills Council do at a regional level' (HM Treasury *et al.*, 2008, p. 15).

INSERT TABLE 2

As Tables 1 and 2 demonstrate RFA funds increased considerably from £3,941m in 2005-06 to £7,726m in 2010-11. However, interviews revealed that there was little consideration in Whitehall about the collective effects of these budgets or whether budget allocations would need to be revised in individual regions as a consequence. As an official in the Government Office (GO) Network stated, ‘the way budgets have been brought together is a consequence of serendipity. There has been no attempt to think strategically about how regional formulae might be affected by bringing these programmes together’. Indeed, Whitehall departments were more concerned with protecting ‘their resources and did not view RFAs as a genuine pooling or decentralization of budgets’ (DBERR official).

Guidance on preparing advice

The Government issued a common template that set out how regional advice should be prepared, including:

- *Evidence-based* - priorities should be based on robust regional evidence,
- *Agreed within the region* - as far as possible, regional funding allocations advice should represent a regionally-agreed view of priorities,
- *Realistic* - cost estimates should be robust and proposals tested for deliverability,
- *Consistent* - advice should be consistent with wider national policy objectives and take into account regional and local strategies except where robust evidence is presented for different priorities (HM Treasury *et al.*, 2005, p. 8).

The guidance reflected New Labour’s desire to facilitate partnership working. Decision making needed to reflect ‘a process which engages a wide range of regional stakeholders, to ensure that the region benefits from the widest possible evidence base, and to create conditions in which a consensus can emerge’ (HM Treasury *et al.*, 2005, p. 7). While policy networks existed across the core areas, it was felt that ‘the added incentive of cash would prompt a more focused discussion on policy objectives’ (DCLG official).

The 2008 RFA guidance added two new criteria:

- *Value for money* - regional advice should represent value for money, with costed proposals that have been tested for deliverability, so far as is reasonably practical.
- *Reflect the priorities emerging in Multi-Area Agreements* - where MAAs have been signed-off or are in development, regional advice should be consistent with the MAA evidence base (HM Treasury *et al.*, 2008, p. 12-13).

The rationale for these additions was primarily driven by individual departments. The ‘value for money’ criteria reflected concerns within DfT around considerable overspend and slippage in transport schemes (Faulkner, 2006). The second reflected DCLG’s desire to protect the influence of local authorities in economic development following the SNR. The Review set out proposals to give local authorities a greater role in economic development and focus investment in emerging MAAs (Pearce and Mawson, 2009). As a consequence, DCLG felt that the priorities of MAAs should be

given precedence - a position that potentially placed them at odds with the motives of the Department for Business, Innovation and Skills (DBIS) and the RDAs that were looking to maintain a strong regional focus.

OPPORTUNITIES AND LIMITATIONS OF RFAs

The Government's formal guidance (HM Treasury *et al.*, 2005; 2008) indicated that RFAs were intended to achieve the following objectives:

- Consistency with national priorities
- Realistic prioritization
- Evidence based priorities
- Consensus based priorities
- Promote policy coordination
- Enable the long-term management of resources

The following analysis examines whether these objectives were realized.

Consistency with national priorities

RFAs represented pots of money already allocated via the Spending Review process and, as such, were strongly linked to national targets and priorities. Regional economic development and housing funding streams had already been decentralized via the RDAs' *Single Pot* in 2001 and through Regional Housing Strategies (RHSs), launched as part of the Sustainable Communities Plan in 2003 (HM Treasury and DTI, 2001; ODPM, 2003). Consequently, spending priorities for these two areas had already been decided for the 2004 spending review period and shaped spending priorities post 2007/8. This left minimal scope for policy manoeuvre and ensured that RFAs echoed national priorities and regional strategies already agreed with relevant departments.

It was the first time, however, that regional partners had been accorded the opportunity to identify transport priorities linked to investment. According to some Whitehall officials, this provided scope for more systematic transport planning at the regional level, the generation of a more robust evidence base to inform decision making and the possibility of joining up transport activities with associated policy areas (SQW, 2006). The RFA process, therefore, had the potential to open up conflict between DfT and the regions. However, for the most part, regions tended to present 'government friendly' suggestions - perhaps not surprising as the guidance indicated that submissions were more likely to be approved if they met national targets. As Neill (2009, p. 9) suggests, 'because regions are obliged to follow national targets set by their funding departments, investment in regional priorities has come a poor second to meeting Whitehall goals'. Nonetheless, a DfT official acknowledged that some cynics in the regions thought that departments 'would put RFA advice in the bin and do what they [departments] wanted to do anyway'. To the contrary, DfT accepted 98% of the advice presented (Faulkner, 2006), leading a DfT official to conclude that the RFA exercise had actually led to a reduction in tensions between local and regional actors and the Centre,

'The conflict in the past was usually the regions lobbying for completely unrealistic levels of spend. Now they've got indicative budgets allocations it's

more about managing within that framework so it has actually decreased the potential for conflict’.

During the second round of RFAs a number of factors served to reinforce the influence of national priorities. First, DIUS was reluctant to acknowledge regional priorities for skills that did not match national thinking. As a DCLG official observed,

“DIUS believed skills policy is about the individual and did not see why there should be regional control of those budgets. They have national targets and local mechanisms for delivery so they did not see the relevance of the regional tier. But Treasury wanted skills there so it was a compromise. I suspect that in the end DIUS said ‘you [regions] make the case and we will ignore it’ and that’s essentially what they did”.

During March 2009 regional meetings were held between Whitehall officials and regional actors to discuss RFA 2 submissions. Respondents indicated that there were ‘fractious’ exchanges between officials from the North East and DIUS. However, in the face of opposition, DIUS stuck firm. ‘Our position was clear in that the LSC budgets are not up for grabs. That led to difficult discussions with some regions but we were not in a position to grant anything else’ (DIUS official). A Treasury-led Cross Departmental Steering Group was established to facilitate negotiations around RFAs, comprising senior officials with a ‘regional remit’ across participating departments. However, the Group had minimal influence in persuading DIUS to abide with the spirit of the RFA scheme. Indeed, it was not within its remit to ‘lobby’ departments to respond to RFA submissions in particular ways. The Group’s activities were confined to information dissemination and facilitating cross-departmental discussions. So, even with the Treasury at the helm, it remained impossible to cajole the big delivery departments to engage in regional working that did not fit with their departmental objectives. This indicates that despite ministerial rhetoric around decentralization, the RFA process was dictated by a highly politicised game that reflected deep rooted departmental positions, cultures and legacies. It also underlies the importance of generating buy-in across all departments if schemes that require a joined-up response are to succeed.

Second, the Homes and Communities Agency (HCA) was formed on 1st December 2008 through the transfer of the functions and assets of English Partnerships, the investment functions of the Housing Corporation, a number of delivery programmes from DCLG and the transfer of the Academy for Sustainable Communities (HCA, 2010). Consequently, the housing element of RFAs had to be approved by the new Agency. Some Whitehall officials questioned the amount of discretion granted by DCLG to the HCA and whether it was able to respond to regional priorities and consider coordinating investment with other areas. As a DCLG official noted,

‘The HCA was a new agency that hadn’t delivered yet so to give them more flexibility would make Ministers very nervous. This forced them to stick closely to identified national targets’.

More generally, Whitehall officials indicated that RFA submissions presented no challenge to the Centre. As Goldsworthy (2009, p. 6) argued, ‘the current system of regional government is a jigsaw puzzle of pieces whose shapes and sizes are

determined by central government for their administrative convenience'. Departments appeared to be utilizing RFAs as a route to achieving national objectives, rather than an avenue for enhancing policy coordination and genuine sub-national discretion.

Realistic prioritization

Officials in all government departments were clear that prioritization was the key to successful RFA submissions. They confirmed that regions had improved prioritization with successive attempts, particularly in the area of transport. Nonetheless, significant challenges remained, most notably the limited resources attached to RFAs. Funding allocations amounted to £7.6bn in 2009/10 (economic development £2.2bn, housing £3.3bn, transport £2.1bn). While significant, this represented just 14% of total public expenditure in the three policy areas and 1.5% of public expenditure in the regions (HM Treasury and National Statistics, 2009). Regions were, therefore, being asked to prioritize investment decisions but they only had control over a small percentage of total regional expenditure. As noted previously, the fact that RFA money was already committed to delivering a series of national programmes meant that in reality there was limited scope for discretion at the sub-national level. Consequently, considerable difficulties arose in coordinating RFAs with related expenditure that fell outside the RFA remit. There was a view in Whitehall that regional actors needed to work in partnership with other agencies, including regional non-governmental organizations to secure influence over additional funding. However, this proved difficult when arms-length bodies were themselves restrained by central targets and funding accountabilities that did not encourage joint working (Leslie and Dallison, 2008).

A second challenge for prioritization was Whitehall's preference for investment based on maximum economic impact as expressed by Gross Value Added (GVA), rather than an emphasis on social and geographical equity. As Pike and Tomaney (2009, p. 14) note, 'the experience of economic development within England is marked by complexity, experimentation, fragmentation and incoherence with largely negative implications for territorial equity and justice'. A Treasury official illustrated this point,

'We don't want jam spreading that ensures that all localities get their slice of the cake. We want regions to take hard decisions based on where the opportunities lie in that region and where they feel they will get the best returns in terms of boosting productivity'.

This view was echoed in the SNR, which stressed the need for investment in city-regions or MAAs, rather than rural areas (Mawson, 2009). In these circumstances, however, it proved difficult for regions to secure buy-in from localities that were unlikely to be the beneficiaries of additional funds. There was also the likelihood of enhanced competition between MAAs and localities that all felt that their schemes were the most important in securing increased regional productivity leading, potentially, to wasteful forms of territorial competition and the further embedding of geographical inequalities (Rodriguez-Pose, 2009).

Evidence based priorities

Providing a clear evidence base and enhancing fiscal transparency are seen as a

‘means of improving economic governance arrangements’ (Heald, 2003, p. 723). However, perhaps surprisingly, the arrangements that departments employed to appraise evidence in RFA submissions can best be described as ‘patchy’. Interviews revealed that there were limited formal arrangements to examine (i) the credibility of evidence presented in regional advice or (ii) the procedures developed by regional actors when making decisions about their advice. A Treasury official indicated that the Department did not have the resources to consider the evidence used by regions in a ‘systematic or extensive way’. Instead it adopted a ‘broad brush’ analysis combined with assessments by participating departments and discussions with GO officials. Indeed, much appeared to ‘depend upon goodwill and trust’ (Treasury official) with officials accepting evidence presented to them as reliable. Likewise a DBIS official described the scrutiny of RFA evidence as being based primarily on ‘gut feeling’. Nonetheless, it was acknowledged that the Department had more robust arrangements for analyzing the Regional Economic Strategies (RESs), which underpinned the economic development strand of the RFAs. Similarly a DCLG official described their scrutiny procedures,

‘I have read the Regional Spatial Strategies and Regional Economic Strategies so I know the evidence base that they are drawing on. We have lots of evidence around housing demand and national models so we know if it rings true.’

Nonetheless, the same DCLG official indicated that, ‘I think some of the evidence is finessed. There is a balancing act between the evidence base and regional ambition’. This raised questions over the transparency and validity of regional evidence.

Officials in DfT pointed out that there were no specified procedures for examining regional evidence, outside of their own value for money reviews. This presented a particular problem for the prioritization of transport programmes and projects because regional transport advice was based in many cases on evidence provided by scheme promoters and the quality of this evidence was debatable (DfT, 2007). Most regions had opted to commission consultants, largely paid by DfT, to generate prioritization methodologies for the transport strand of RFA submissions. Methodologies varied across the regions but most involved assessing whether schemes (i) contributed to regional objectives (ii) represented value for money and (iii) were deliverable. In most instances, key personnel working on transport submissions rallied to get different stakeholders and partners signed up to the logic underpinning the methodology. ‘Then, once all the data had been number crunched, stakeholders had to agree with the outcomes whether they liked it or not’ (DfT official).

Consensus based priorities

Whitehall departments believed that procedures for developing RFA advice should vary depending on the political, social and economic peculiarities of different regions. As Boschma (2004, p. 1001) states, ‘there exists no “optimal” development model, it is difficult to copy or imitate a successful model from elsewhere, and new trajectories often emerge spontaneously and unexpectedly in space’. During round one, the GOs were charged with a ‘facilitator’ role, with RDAs and Regional Assemblies taking the lead on preparing submissions. The GOs shared insights with departments as to the consultation and partnership processes that regions had undertaken, although a DCLG

official indicated that this process had ‘not been hugely successful because the responsibility for reporting back to departments was delegated too low within the GOs’. It is unclear whether this was the direct cause, but Whitehall officials involved in reviewing RFA submissions appeared to know little about partnership arrangements across individual regions and were not able to comment on regional governance capacity and how this may have impacted on the quality of RFA submissions.

Undoubtedly, DfT undertook the most thorough analysis of regional procedures. The Department commissioned an independent report on the first round of RFAs (Faulkner, 2006) and carried out a consultation on how RFA submissions should be developed (DfT, 2006). The consultation highlighted that the procedures for developing regional priorities could have been more inclusive, particularly in relation to engaging environmental interests. This point was echoed in a report by the Campaign for Better Transport (2009), which found that environmental groups felt excluded from RFA negotiations. Despite these findings, DfT concluded that it would be ‘inconsistent with the spirit of devolving advice to be explicit about how advice should be assembled’ (DfT, 2006, p. 3.6).

During round two, RFA submissions were being prepared amidst the institutional changes brought about by the SNR. Regional Leaders Boards, comprising local authority leaders, were coming into place and working with RDAs to develop Single Regional Strategies (SRSs) and RFA submissions. This was a period of significant institutional repositioning, uncertainty and jockeying for influence in the regions (Townsend, 2009). Whitehall officials were split on the extent to which this impacted on the quality of RFA submissions. Officials in the Treasury, DCLG and DBIS indicated that it had improved joint working around RFA submissions as there was more of an onus on sub-national partners working together. A DBIS interviewee commented that ‘RFA submissions provided something for regional partners to get their teeth into post SNR and forced new actors to come together around a common purpose’. However, officials working on skills in DBIS and in DfT were more skeptical; ‘with so much going on in the regions, I suspect the whole process of working on RFAs was a bit tiresome’ (DfT official).

There was also a view in Whitehall that tough decisions were more difficult to reach now that local authorities had a larger role in negotiations. A Treasury official indicated that ‘a local authority dimension brings with it a focus on territory and parochialism that might not have been so evident before’. One way of resolving this was to enhance the leadership role of the newly appointed Regional Ministers in managing tensions between local interests. Whitehall officials felt that Regional Ministers had an important role to play, although their involvement varied across regions. A DfT official suggested that their involvement had ‘resulted in more jam spreading and less prioritizing than in the first round of RFAs, as Regional Ministers sought to ensure that all areas got a proportion of funds in a bid to keep the peace’. It was also unclear whether they were charged with championing the region in Whitehall or ensuring that central government policy was implemented in the regions. Whitehall interviewees were clear that it was the latter.

Promote policy coordination

The extent to which the RFA process facilitated enhanced policy coordination can be examined across three distinct dimensions (i) horizontal links across Whitehall departments (ii) vertical links between Whitehall and the regions and (iii) horizontal policy coordination at the regional level.

First, in order for regions to join up their policies, Whitehall itself needed to join up (Mrinska, 2008). There was, however, limited evidence of enhanced interdepartmental working as a consequence of RFAs. Part of the remit of the RFA Cross Departmental Steering Group was to gather information and disseminate it across departments. A DfT member described the Group as a 'sort of clearing house', receiving evidence from the GOs. It also considered the potential alignment of policy areas within RFA submissions. While these arrangements provided an opportunity for dialogue, a DCLG official noted that the role of the Group was fairly minimal and worked on an 'ad hoc basis'. This was especially the case during the second round of RFAs when 'departments were more concerned with managing the fallout from the economic downturn than dealing with regional priorities' (Treasury official).

Second, regional policy coordination required effective vertical links between Whitehall and the regions (HM Government, 2009). Nonetheless, the impact of RFAs varied across policy areas. In the cases of both DBIS and DCLG there was little evidence of any changes in the arrangements for liaising with regions on economic development and skills policy (DBIS took over responsibility for skills from DIUS in June 2009) or around housing priorities. RFA submissions largely represented work and priorities already agreed with these departments. A DBIS official pointed out that the Department's RFA team was made up of only one or two officials and that its primary function was to manage responses *within* the Department, rather than recalibrating the ways in which the Department engaged with other departments or the sub-national tier.

By contrast, the relationship between DfT and the regions was significantly affected by RFAs. From 2005, DfT had set up a system of regular meetings in the regions in order to assess transport schemes that might be included within RFA advice. This was viewed as essential in order to work through the uncertainties surrounding transport infrastructure costs and timetables for delivery (DfT, 2007). Each region had a 'key contact' in DfT, who was seen as vital in securing regular information flows both upwards to Whitehall and downwards to the regional tier. For DfT, the RFA process had effectively altered inter-governmental relationships for setting transport priorities between central, regional and local actors, 'resulting in noteworthy efficiency savings' (DfT official). Under the RFA system, local transport authorities needed approval for schemes from Regional Transport Boards (or Forums) before submitting them to DfT, 'leading to the removal of unsuitable schemes before the costly and time consuming process of appraisal at the Centre' (DfT official).

Finally, regional strategies and policy areas needed to be horizontally integrated to facilitate a more cohesive approach to policy implementation (Counsell *et al.*, 2007). However, this proved difficult because accountabilities and funding streams emanated from separate Whitehall departments (Pearce and Ayres, 2007). RFAs were intended to respond to this gap by requiring individual regions to think collectively about regional priorities across core areas and Whitehall officials generally agreed that this had been broadly achieved. By contrast, a DCLG official stated,

‘My impression is that the individual policy strands are developed in isolation and then pulled together at the end to make submissions look like a coherent document. While there are limits in this, it does mean that senior executives would have had to look across the four areas collectively’.

The option to vire (or transfer) funds between budget headings was also intended to overcome some of the budgetary constraints on sub-national policy coordination. Nevertheless, no region made the case to vire funds. Participating departments supported virement as long as it did not come out of their ‘pot’, which produced a stalemate in Whitehall. As a DCLG official explained,

‘Across departments there is willingness about decentralization and joining up but when it comes to losing money they [ministers] will not agree to it. Departments will go so far and then there is a line that they will not cross’.

Likewise, a DBIS official agreed that targets for the core areas ‘were difficult enough to achieve and moving money around would make it even harder to meet government targets’. The same official went on to comment that regions ‘were also coming under pressure from regional quangos not to move money around so it was not just Whitehall’. Formally, Whitehall departments supported virement and encouraged challenging and innovative submissions but regions mooting this were firmly rebuffed. The economic downturn also restricted the scope for virement in the second RFA round. As a Treasury official explained, ‘there were no spare resources, no margins and that was a problem’. Conversely, a senior official in the GO network suggested that the economic downturn made virement and pooling resources more desirable.

“A sensible approach would be for departments to say ‘we have limited money, let’s pool it and look for added value from it. At the same time we could also insulate ourselves from the tough decision’. That of course is rational and sensible but it does not work in the current climate and is unlikely to happen”.

Long-term management of resources

Significant progress was made by regional actors in prioritizing programmes beyond the current spending review cycle. Indeed, Whitehall officials were clear that RFAs were not a ‘static’ process and that regions were constantly ‘tweaking and refining their priorities to take account of new eventualities and ensure that RFA plans are suitable and realistic over the longer-term’ (Treasury official). Whitehall officials were also in agreement that regional advice appeared to have ‘received noteworthy airtime in Whitehall’ (Treasury official) during crucial discussions around the Sub-National and 2007 Comprehensive Spending Reviews (CSR). A DBIS official described the process,

“The Treasury sent a letter to the key departments involved saying ‘in your submissions into the CSR please take into account this [RFA] advice’. So government departments made their bids into the Treasury for how much money they should have and why and in doing so they should show that they

have taken into account the regions' RFA advice". Precisely how this information was digested at the Centre and the impact that it had on the long term allocation of resources on a territorial bases is difficult to judge. But, as a DCLG official commented,

'If RFAs were not going to have any influence officials would have quietly buried them. The fact that the Treasury have said that they will do another round in 2009 gives you an indication of the fact that it has been taken seriously'.

Nonetheless, because the pots of money included in the RFA scheme were comparatively small it can be assumed that such influence had minimal impact on overall government spend. In addition, other factors hindered attempts to develop a long-term, strategic approach to investment. First, government was asking regions to produce long-term, consensus based, strategic priorities in a policy environment that was itself becoming increasingly volatile and unstable. Indeed, in the period post the SNR, regional actors could not predict what was going to happen over the next six months, let alone 10-15 years. There was also the prospect of a general election and with it uncertainty about what parts of the regional architecture would be dismantled in the event of a change in government. A GO Network official indicated that work on RFAs and SRSs had perhaps 'slowed down as regional bodies and local actors await the outcome of the general election'. Finally, the economic downturn in 2008 brought with it massive uncertainty about government expenditure. As a Treasury official described,

'We could not take on the advice in RFA 2 like we did in RFA 1 because of the recession. It has been a useful exercise to see what priorities are in the regions but the funding available had completely changed. Because we were not able to allocate figures over the long term the exercise was completely blown out of the water'.

CONCLUSIONS

This paper reveals a differentiated pattern of responses across Whitehall departments to decentralization, which has implications for methodology, theory and practice. First, methodologically, it underlines the value of a detailed analysis of responses in Whitehall to provide 'rich descriptions' of departmental positions and aspirations. In terms of theory, at first sight RFAs might be seen as evidence of decentralization. However, contrary to the notions of multi-level governance, the findings suggest that the scope for sub-national influence is firmly defined. It also underlines that scope for decentralization may be more variable than previously anticipated, with important implications for the current Coalition governments plans to transfer responsibilities for policy formation and implementation to the local tier.

The account presented in this paper suggests that RFAs exerted a positive influence on the process of identifying regional priorities linked to investment and there were gains in prompting greater awareness in Whitehall of regional objectives. Moreover, there is evidence that civil servants became more receptive of the need to think about the spatial consequences of their decisions and provide the continuity of funding necessary to deliver sustainable development at the sub-national level. The 'big prize'

has undoubtedly been regional transport policy where RFAs were the catalyst for enhanced inter-governmental relations, transforming regional ‘wish lists’ into strategic priorities and a more consensual and evidence based approach to identifying viable transport schemes. A more sanguine view, however, is that while there has been growing awareness in Whitehall of the need to boost the competitiveness of England’s economically weaker regions and improve service delivery through decentralization and coordinating government tiers, RFAs represented ‘tinkering at the edges’ rather than any fundamental transfer of fiscal autonomy or devolution of power. Despite the rhetoric of decentralization in England, evidence indicates that progress has been highly variable and dependent on the whims and preferences of individual departments. In the absence of a constitutional master plan to deal with the outstanding ‘English Question’ (Hazell, 2006), territorial politics in England is characterized by a ‘hybrid state’, with different areas of policy being affected unevenly by decentralization (Loughlin, 2009).

The desire in parts of Whitehall, most notably the Treasury, to pursue decentralization might be viewed as evidence of the emergence of a more fluid, multilevel form of governance characteristic of a ‘hollowed state’. Nonetheless, aside from transport, Whitehall delivery departments have been generally unable or unwilling to respond - the consequence of historical legacies that reflect the departmentalism and silo structures of the Westminster model (Rhodes, 1997). Whitehall wrangling and game playing around RFAs reflected a desire to maximize departmental objectives, rather than a cohesive strategy aimed at empowering localities. Pike and Tomaney (2009, p. 29) argue that decentred, networked and plural forms of governance appear ‘to downplay the shadow of the nation state and the instrumental role of such a framework pushing down responsibility to lower institutions without concomitant shifts in authority and resources’. Indeed, this is an accurate description of the RFA process in that sub-national actors were given responsibility for policy development and deliver but without genuine control over associated funds.

The new Coalition Government takes the view that strategic planning in areas such as economic development, housing, planning and transport at the regional level in England, beyond London, is unnecessary, lacks legitimacy and would be better handled at a local level. Consequently, the RFA process has been abandoned. Nonetheless, the Government has acknowledged the merits of a more integrated approach to public expenditure and greater flexibility over the delivery of local services as a way of achieving economic growth and greater effectiveness in the use of resources. The Minister for Decentralization has announced that ‘this government is genuinely committed to decentralization’ and ‘this will require a fundamental rethink of standard Whitehall practice’ (Clark, 2010). Our findings, from the RFA process, however, offer a cautionary tale for any government seeking to promote decentralized and flexible budgets in England. We identify the following lessons that might inform the Coalition Government’s plans.

- It may be easier for Whitehall to overcome its distaste for devolved budgets if resources are devolved to authorities with democratic legitimacy, rather than an unelected regional tier. However, if sub-regions are to be the preferred territorial framework for policy integration, either in the form of LEPs, City-regions or MAAs, measures will be needed to demonstrate clear lines of accountability, possibly through either city mayors or statutory agreements.
- A genuine commitment for local budgetary discretion and flexibility needs to be secured amongst all key domestic Whitehall spending departments. This is

essential to avoid repetitious stalemate, especially over the virement of resources between funding streams. At the same time this will place additional pressures on local authorities to demonstrate the potential benefits of a more cohesive approach to investment.

- Adequate funds need to be ring-fenced to make a distinct difference to policy implementation at a local level. If sub-regions or localities are to demonstrate competence they need to have the levers at their disposal. It is only through demonstrating a capacity for improved policy making that localities can make the case for enhanced discretion, though the current severe cut backs in public expenditure will make any transfer of resources hugely challenging.
- National and sub-national priorities need to complement one another. However, the predominance of national targets in the RFA process left minimal scope for policy manoeuvre, severely limiting the efficacy of the process. Localities, therefore, need to be given the freedoms to develop policy solutions tailored to local circumstances. The Total Place agenda and Regional Growth Fund will provide a useful test ground for gauging the Coalition's commitment to local discretion and innovative approaches to service delivery.
- Mechanisms for dealing with cross cutting issues at the Centre need to be improved if localities are to join up their activities.
- Sub-national policy-making has continued to be undermined by the constant reordering of priorities and budgets and, despite impending spending cuts, efforts need to be made to secure a degree of continuity and certainty around spending programmes.

If implemented, these proposals would have huge implications for the operations of Whitehall and it remains to be seen whether the Coalition's plans to empower localities will be realized. Whitehall's predisposition for centralism and departmentalism is deep-rooted and ill equipped to realize the benefits that can flow from cross-departmental strategic thinking or 'joining up' action at the sub-national level. As Jones and Stewart (2010, p. 1) note 'we see no evidence that the Government appreciates the extent of change which would be needed...The instinct of ministers is to impose their views and not to devolve'. Furthermore, current pressures on public expenditure are likely to further undermine efforts to develop a performance and reward system within Whitehall that weaves longer term outcomes and investment planning into mainstream thinking (Greer, 2010). Indeed, despite renewed rhetoric around decentralization and localism in the UK, the stark reality is that Whitehall centralism is strong and enduring.

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20.2.11

Table 1. Total planning assumptions by year, region and sector 2005-06 to 2007-08 (£ million)

		NW	NE	Y&H	EM	WM	SW	SE	E	Total
Funding Allocations 2005-06 to 2007-08										
2005-06	Transport	113	42	83	71	88	84	135	92	708
	Housing	250	86	144	116	182	137	367	167	1449
	Economic	382	240	295	156	272	153	157	129	1784
	Total	745	368	522	343	542	374	659	388	3941
2006-07	Transport	115	43	85	73	90	86	138	94	724
	Housing	249	88	147	125	186	158	384	191	1528
	Economic	400	251	310	163	284	159	163	134	1864
	Total	764	382	542	361	560	403	685	419	4116
2007-08	Transport	117	43	87	74	92	88	141	96	738
	Housing	249	91	154	143	193	203	421	241	1695
	Economic	409	258	316	167	291	164	167	138	1910
	Total	775	392	557	384	576	455	729	475	4343

(Source: HM TREASURY et al., 2005, p. 5)

Table 2. Total planning assumptions by year, region and sector 2008-9 to 2010-11 (£ million)

		NW	NE	Y&H	EM	WM	SW	SE	E	Total
Funding Allocations 2008-09 to 2010-11										
2008-09	Transport	330	127	251	201	256	259	348	255	2031
	Housing	550	170	284	221	325	333	624	429	2986
	Economic	499	289	388	190	323	221	163	144	2217
	Total	1379	586	923	611	904	813	1134	828	7233
2009-10	Transport	344	124	256	213	264	267	362	263	2112
	Housing	563	191	293	263	338	401	670	455	3274
	Economic	478	286	370	188	320	221	161	142	2167
	Total	1385	602	919	664	922	899	1192	861	7553
2010-11	Transport	361	128	267	223	277	280	379	273	2195
	Housing	531	187	289	291	361	382	785	457	3433
	Economic	453	282	349	185	315	218	157	140	2099
	Total	1345	597	905	699	953	880	1321	870	7726

(Source: authors' own. Data derived HM TREASURY et al., 2008).